CONSUMER BULLETIN

446

FINANCING CONDOMINIUMS THROUGH FHA

U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
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FEDERAL HOUSING ADMINISTRATION
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". . . the initiative and vitality of our private housing industry . . . has provided the homes which have made most of our citizens the best housed people in the world"

President Lyndon B. Johnson

FOREWORD

The condominium method of ownership is new in the United States, although it has been used extensively for many years in Europe and Latin America.

In a condominium, an individual owns separately one or more single dwelling units in a multiunit project. He and the owners of the other units have an undivided interest in the common areas and facilities that serve the project.

The common areas include such elements as land, roofs, floors, main walls, stairways, lobbies, halls, parking space, and community and commercial facilities. Some of these may be restricted areas, that is, they may be limited to a certain family unit or to a certain number of family units.

FHA'S CONDOMINIUM PROGRAM

The Federal Housing Administration, under Section 234 of the National Housing Act, insures mortgages to finance the construction or rehabilitation of multifamily projects intended for use as condominiums. Later, the individual units in such projects are released from the blanket mortgage, sold to individual owners, and financed separately. The single units, when sold, may be financed by the buyers with FHA-insured mortgages or with non-FHA mortgages; or a buyer may purchase on an all-cash basis without a mortgage if he chooses to do so.

A condominium project may consist of more than one building. It can be a group of row apartments, a group of high-rise buildings, a number of single-family structures, or a combination of these types. The project must contain at least five family units.

Whether the project is new or existing, sale to condominium buyers can be made only after FHA has processed the case and found the plan of condominium ownership to be acceptable.

FHA's commitment to insure the individual mortgages is based on certain conditions. One is that all planned construction be completed. Another is that units amounting to 80 percent of the value of all units be sold to FHA-approved buyers. To be insured under this program, the mortgage on a family unit must be a first mortgage. For that reason, any FHA-insured project mortgage on the building has to be paid in full, or the FHA insurance contract ended and a release plan set up, so that each family unit may be financed free and clear of the existing project mortgage.

One person may own as many as four units financed with FHA-insured mortgages, provided he lives in one of them. No mortgage on an individual unit will be endorsed for FHA insurance unless the buyer was given a written statement of the FHA-appraised value of his unit before signing the purchase agreement or appropriate provisions made as part of the agreement.

This program, like other FHA programs, includes certain rules for the proper protection and management of the project.

BLANKET MORTGAGE LIMITATIONS

The blanket mortgage on a multiunit condominium project cannot exceed the lowest of:

1. A total amount of $20 million for a private mortgagor.

2. An amount equal to 90 percent of the replacement cost of the project.

3. An amount equal to a family-unit limit of $9,000 for units without a bedroom, $12,500 with 1 bedroom, $15,000 with 2 bedrooms, $18,500 with 3 bedrooms, and $21,000 with 4 or more bedrooms. In elevator-type structures the limits are $10,500, $15,000, $18,000, $22,500, and $25,500, respectively. All these limits may be increased up to 45 percent in areas where building cost levels are high.

4. An amount equal to the sum of the mortgage amounts that could be insured for owner-occupant mortgagors of each family unit.

The mortgage term cannot exceed 40 years. The interest rate can be no more than 5-1/4 percent, paid monthly on the principal then outstanding. The mortgage insurance premium is 1/2 of 1 percent.

The project covered by the blanket mortgage may include commercial and community facilities adequate to serve the people who live in the project.

FAMILY UNIT MORTGAGE LIMITATIONS

The following limits apply to the mortgage on a single unit:

1. The interest rate cannot exceed 6 percent. The FHA mortgage insurance premium is 1/2 of 1 percent a year on decreasing principal balances, without taking into account prepayments or delinquencies.

2. The mortgage term can be no less than 10 years nor more than 30 years (35 years in some cases, with FHA approval).

3. The mortgage amount cannot exceed $30,000. The amount is further limited as follows:

   a. Based on the FHA value of the family unit, including common areas and facilities, it cannot exceed 97 percent of the first $15,000, plus 90 percent of the next $5,000, plus 75 percent of the value above $20,000.

   b. For a unit owned by a person who does not live in it, the mortgage amount cannot exceed 85 percent of the amount computed for an owner-occupant.

The extent of interest that the owner of a living unit has in the common areas and facilities is governed by the ratio of value of his unit to the total value of all the units. This ratio also represents his voting interest in the condominium owners' association. Along with the owners of other units in the project, he has the right to use the common areas and facilities and the obligation to maintain them. The owners make monthly contributions of their proportionate share of the cost of maintaining these common areas and facilities.

CONDOMINIUMS AS DISTINCT FROM COOPERATIVES

Condominium housing differs somewhat from cooperative housing. For instance:

1. In condominiums, individuals take title to their units. In cooperatives, each one has a stock ownership in the cooperative and the right to live in one of the units.

2. In condominiums, individuals vote on a proportionate basis. In cooperatives, each person has one vote no matter what the size of his unit.

3. In condominiums, individuals are taxed separately on their units. In cooperatives, they pay their share of taxes on the

project in their monthly carrying charges.

4. In condominiums, individuals may or may not have mortgages on their units, depending on their own wishes and their ability to finance the purchase of their units. In cooperatives, the cooperative mortgage covers all the units and the members are not free to exclude their units from the cooperative mortgage or to obtain mortgages on different terms.

EQUAL OPPORTUNITY IN HOUSING

FHA regulations under the President's Executive Order 11063 of November 20, 1962, require that housing provided with FHA assistance be made available without discrimination because of race, color, creed, or national origin.

The regulations prohibit any person, firm, or group receiving the benefits of FHA mortgage insurance or doing business with FHA from practicing such discrimination in lending or in the sale, rental, or other disposition of the property. Violations may result in discontinuation of FHA assistance.

One- or two-family dwellings which have been occupied by the owner are exempt from the regulations; but if the purchaser of such a home wishes to finance it with an FHA-insured mortgage the lender may not refuse to make the loan because of the buyer's race, color, creed, or national origin.

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